

**MINUTES
REGULAR MEETING
RETIREMENT BOARD OF TRUSTEES
EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF BATON ROUGE
AND PARISH OF EAST BATON ROUGE
MAY 30, 2019**

The regular meeting of the Retirement Board of Trustees was held in the boardroom of the Retirement Office at 209 St. Ferdinand Street, and was called to order at 10:06 a.m. by Board Chairman Ms. Marsha Hanlon. Members present: Chief Richard Sullivan, Mr. Mark LeBlanc, Mr. Joseph Toups, and Mr. Brian Bernard. Absent: Sgt. Neal Noel and Mr. David West. Staff present: Mr. Jeffrey Yates, Mr. Russell Smith, Mr. Mark Williams, and Mr. Kyle Drago. Others present: Ms. Denise Akers – legal counsel, Ms. Shelley Johnson – actuary with Foster & Foster, and Mr. Brit Hines and Corey Artieta - BRFD.

Mr. Kyle Drago formally called the roll.

There was a call for public comments prior to introduction of the first agenda item. There were no public comments.

The chairman began by introducing Item 1, Reading and Approval of Minutes, and noted that there were minutes being considered for approval from the regular meeting of April 25, 2019, and from the Investment Committee meeting of May 14, 2019, and called for a motion.

Motion by Mr. LeBlanc, seconded by Chief Sullivan to suspend the reading of, and approve the minutes of the regular meeting of April 25, 2019 as presented.

No discussion and no objections.

Motion passed by those members present.

Motion by Mr. LeBlanc, seconded by Mr. Toups to suspend the reading of, and approve the minutes of the Investment Committee meeting of May 14, 2019 as presented.

No discussion and no objections.

Motion passed by those members present.

Under Item 2, Disability, there were no applications for consideration for disability retirement.

The next item on the agenda was Item 3, Benefits Report, and the chairman called on Mr. Yates to present the report. Mr. Yates stated that the report was in order as presented, that the staff would answer any questions, and that the report contained no unusual items.

Motion by Mr. Bernard, seconded by Mr. LeBlanc to approve the Benefits Report as presented.

No discussion and no objections.

Motion passed by those members present.

The next item on the agenda was Item 4, DROP Notifications Report, and it was noted that this report was provided for informational purposes only, and no action was necessary.

The chairman then moved to Item 5, Consultant Reports, and under 5A, Status on Pending Legal Matters recognized Ms. Akers. At this time, Mr. LeBlanc requested that Ms. Akers' legal update and Item 9B, New Business, Discussion Regarding Contract Negotiations with Investment Consultant Wilshire Consulting be taken together as one item. The chairman agreed. Ms. Akers stated that the Wilshire contract still had several terms that she and Mr. Yates were uncomfortable with, and that she had pushed back to get reconsideration. Wilshire acquiesced to most of the requested terms. She then detailed some of the terms they did not compromise on, such as the exclusion of lost profits in paying liability, although Wilshire indicated they might revisit this provision. There was also a provision involving indemnity for both parties, but Wilshire tied those terms to contracts CPERS has with its investment managers. Another disagreement involved the venue in the event of litigation, which was an important provision for CPERS in order to limit costs should a lawsuit occur. Ms. Akers also noted that it was not illegal for Wilshire, or any other consultant, to have a conflict of interest, but the consultant would be required to disclose the conflict, and the burden would be on the Board, in the case of manager searches, to assess the conflict and possibly request data for comparable managers. Wilshire did state that they would not recommend any Wilshire products for CPERS, and none of Wilshire's ERISA clients use Wilshire products. Mr. LeBlanc stated that he was not pleased with the situation, considering the amount of time Ms. Akers and the Board had spent on the contractual terms. He also stated that he felt Wilshire was playing by a different set of rules, and that he did not want to see Ms. Akers or Mr. Yates spend any more time on this process. Mr. LeBlanc noted that if CPERS did not have any legal obligation to Wilshire, he would like to see the Board contract

with the next firm in line, which was AndCo. Mr. Yates noted that back when the Board was considering using Summit Solutions, there was never a 100 percent comfort level regarding perceived conflicts of interest. He stated that if the Board contracted with Wilshire, he believed there would always be questions regarding asset allocation and manager selection issues. He further stated that he was comfortable with the written contract, given Wilshire's agreeability to most of the terms Ms. Akers had pushed. Mr. Toups stated that he was very hesitant moving forward with Wilshire. In answer to a question from Mr. Bernard, Ms. Akers stated that CPERS had no legal obligation to Wilshire, and that the legal obligation to any firm would start with the signing of a contract.

Motion by Mr. LeBlanc, seconded by Chief Sullivan to discontinue further negotiations with investment consultant Wilshire Consulting, for the purpose of avoiding any perceived conflicts of interest.

No discussion and no objections.

Motion passed by those members present.

Motion by Mr. Toups, seconded by Mr. LeBlanc to begin investment consultant contract negotiations with AndCo.

No discussion and no objections.

Motion passed by those members present.

Under Item 6, Committee Reports, Mr. LeBlanc presented an Investment Committee report under Item 6B. He began by stating that an Investment Committee meeting was held on May 14, 2019, at which AndCo presented the first quarter 2019 investment performance results. He stated that the quarter was a strong one, with the Fed stating they would not be raising rates in the near future, but with the threat of tariffs on Chinese goods still being an unknown market influence. Overall, the portfolio returned 8.29 percent, which trailed the policy index by 33 basis points. Mr. LeBlanc gave a brief synopsis of the performance of the various asset classes, both domestic and international. He noted that AndCo had alerted the committee to an issue with international equity manager Gryphon regarding a key person departure. He also noted that AndCo had talked more about the concept of the fund-of-one versus what CPERS is currently doing. He also stated AndCo had presented several asset allocation scenarios that would change CPERS' expected rate of return and risk profile if implemented. Mr. Yates stated that he had just received a flash report for April, and it showed a positive 1.6 percent return.

Moving to Item 7, Staff Reports, the chairman noted that under Item 7C there were invoices from the Law Offices of Akers & Wisbar, LLC, for the month of April, which Mr. Smith verified as being in order as presented.

Motion by Mr. LeBlanc, seconded by Mr. Toups to approve payment for the charges to the Law Offices of Akers & Wisbar, LLC as presented.

No discussion and no objections.

Motion passed by those members present.

Under Item 7D there was an invoice from the Law Offices of Tarcza & Associates, LLC, which Mr. Yates noted was for a routine year-end audit confirmation request.

Motion by Mr. LeBlanc, seconded by Mr. Bernard to approve payment for the charges to the Law Offices of Tarcza & Associates, LLC as presented.

No discussion and no objections.

Motion passed by those members present.

Under Item 7E there was an invoice from Foster & Foster Actuarial, which Mr. Yates explained was for Section 415 limit calculations.

Motion by Mr. LeBlanc, seconded by Chief Sullivan to approve payment for the charges to the actuarial firm of Foster & Foster as presented.

No discussion and no objections.

Motion passed by those members present.

Moving to Item 7F, Investment Manager/Consultant Invoices, there were a number of investment manager invoices presented and verified by Mr. Smith to be in compliance with the manager contracts.

The next item on the agenda was Item 8, Unfinished Business, and the chairman noted Item 8A, Update on Action Taken Regarding Withdrawal Liability and CPERS Ordinance Language Changes, and called on Mr. LeBlanc for his comments. Mr. LeBlanc stated that he had distributed a memo designed to send to Metro Council members outlining a course of action to protect the System by amending retirement ordinance language to establish and pay withdrawal liability for any regions of the parish that incorporate

apart from City-Parish government. He stated that he and Mr. Toups had spoken to some council members and planned to continue speaking to others. He believed it was important that the council members be made aware of this issue and the importance to the funding of the pension system. He noted that he had members of the System approaching him to ask whether or not their pensions were protected or safe. Mr. LeBlanc stated that it was time to put the matter before the council, and whether or not they passed it, at least they would be made aware of the issue and the potential results. He recommended placing the item on the agenda prior to the October general election. There was a brief discussion regarding the timing for placing the item on the council agenda.

Motion by Mr. LeBlanc, seconded by Mr. Toups to authorize the Retirement Administrator to introduce an amendment, for Metro Council consideration, to Section 1:264 of the Retirement Ordinances relative to approval of withdrawal liability language.

Under discussion it was agreed that the schedules of the actuary, general counsel, and special legal counsel would need to be taken into account for the timing of the action.

There were no objections to the motion.

Motion passed by those members present.

Discussion continued regarding Senate Bill 229, which was about to be heard on the House floor. Mr. Yates stated that he had discussions with House representatives, and had sent out two emails imploring the members to oppose at least the amendments that had been added to the bill. In answer to a question from Mr. Toups, Ms. Akers stated that the whole question she and Mr. Klausner had addressed in their opinion letter was that the City-Parish could take action without state legislative action being necessary. Ms. Hanlon commented that a statutory fix would be best so that anywhere in the state, if a municipal incorporation took place, it would be clear that the new entity could not leave its liabilities behind. It was agreed that the issue should be addressed with the Baton Rouge delegation of the legislature in order to bring their attention to the importance of this issue.

Moving to Item 9, New Business, the chairman noted Item 9A, Presentation of January 1, 2019 CPERS Actuarial Valuation by Foster & Foster and recognized Mr. Shelley Johnson. Ms. Johnson began by showing the recommended employer contribution rate for 2020 as 34.9 percent, due primarily to the investment loss in 2018. This loss will be recognized over a 5-year period. She pointed out that the number of active members was decreasing while the number of retirees was increasing, and that situation created plan maturity risk with fewer contributing members over which to spread the contribution payments. The actuarial value of assets (AVA) increased, but the market value of assets decreased, and the unfunded accrued liability (UAL) increased to \$595.7 million mainly because of investment losses. She noted a new section of the valuation that defines and discusses the types of risk, including investment risk, demographic risk, contribution risk, and maturity risk. She briefly discussed these risks and how they did and could affect CPERS and the PGT. The funded level for CPERS fell from 67.9 percent to 66.6 percent. She then presented a projection out to year 2029 of expected contribution payments, benefit payments, AVA, UAL, and funded ratio. Ms. Akers noted that most of the statewide public pension systems were under pressure to reduce their assumed rates of return on investments, while the larger state systems were gradually reducing theirs to about 7.5 percent. Ms. Johnson noted that it was time to perform a 5-year experience study to look at the reasonableness of the actuarial assumptions, such as investment rate of return and mortality. There was no addition of excess investment income to the Supplemental Benefit Payment account, but there were interest earnings on the funds in that account. Mr. LeBlanc requested that the projection on page 18 of the report be extended 5 years beyond 2029. In answer to a question from Mr. LeBlanc, Ms. Johnson stated that overall, she would give the System a grade of B or B+ because of the Board's cooperation in adopting the recommended contribution rate and other recommendations. Mr. LeBlanc stated that he took pride in the fact that the Board did everything in their power to properly fund the System and preserve the benefits for all the members.

Motion by Mr. LeBlanc, seconded by Ms. Hanlon to accept the blended employer contribution rate of 34.9 percent for the calendar year 2020 as recommended by the System's actuarial consultant.

No discussion and no objections.

Motion passed by those members present.

Moving to Item 9C, Investment Consultant Evaluations for 2018, the chairman requested that the Board members complete the evaluations and return them to Mr. Smith as soon as possible.

Under Item 10, Administrative Matters, there were no matters to address.

The chairman then continued to Item 11, Police Guarantee Trust Matters, and skipped to Item 11E.1, New Business, Presentation of January 1, 2019 PGT Actuarial Valuation by Foster & Foster, and again recognized Ms. Johnson for her comments. Ms. Johnson began by stating that she would give the Board an "A" based on actions taken to protect the PGT. She showed that the required employer contribution was increasing from \$3.2 million to \$8.4 million, resulting from the Board's action to reduce the target investment return to 5.75 percent, and reducing the UAL amortization period from 15 years to 4 years. As expected with a closed system, census data showed a significant decline in the number of active members, with an increase in retired and DROP members. Also, the AVA decreased, as did the market value of assets. Likewise, the funded level of the PGT decreased from 39.8 percent to 36.2 percent. Total

liability was \$44.3 million resulting in a UAL of \$28.2 million. The projection of future benefits and costs showed that the PGT was at risk of not having assets sufficient to pay benefits in the year 2025. Ms. Johnson stated that the PGT actuarial assumptions would be evaluated as part of the 5-year experience study. Lastly, she noted that the DROP balances currently exceeded the asset value. It was noted that the CPERS trust would not be responsible for making payments to police members should the PGT not be able to do so.

Motion by Mr. LeBlanc, seconded by Mr. Toups to receive the PGT Actuarial Valuation Report dated January 1, 2019, and to urge the City-Parish to carefully consider the funding requirements.

No discussion and no objections.

Motion passed by those members present.

The chairman then returned to Item 11A, PGT Benefits Report, and recognized Mr. Yates who stated that there was only one item on the report, and that it was in order as presented.

Motion by Mr. LeBlanc, seconded by Chief Sullivan to approve the PGT Benefits Report as presented.

No discussion and no objections.

Motion passed by those members present.

Under Item 11B, the chairman noted that the PGT DROP Notifications Report was provided for the Board's information, and that no action was required.

There were no matters under Item 11C, Consultants' Reports.

There were a number of investment manager invoices under Item 11D.1 for the Board's review and verified by Mr. Smith to be in compliance with the manager contracts.

Under Item 11D.2 there were no items to address.

Under Item 11D.3, PGT Cash Activity Report, there was no report this month.

Under Items 11E New Business, and 11F Unfinished Business, and 11G, Item 11E.1 had been taken up earlier, and there were no further items to address.

Seeing no further items on the agenda, the chairman called for a motion to adjourn.

Motion by Mr. Toups, seconded by Mr. Bernard to adjourn at 11:46 a.m.

No discussion and no objections.

Motion passed by those members present.

MARSHA HANLON
CHAIRMAN, RETIREMENT BOARD OF TRUSTEES

JEFFREY R. YATES
RETIREMENT ADMINISTRATOR